

Commercial Real Estate Firms May Get Extra Scrutiny in Hunt for Russian Oligarch Money

Treasury Department Warns Banks That Property Loans Could Be Used To Avoid Sanctions



U.S. Treasury officials say Russian oligarchs have used super yachts, such as this one owned by Suleiman Kerimov, to evade economic sanctions against Russia for its invasion of Ukraine. (Getty Images)

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U.S. Treasury officials are warning banks and real estate professionals to be on high alert for signs that Russian oligarchs are using commercial real estate investments as a way to evade economic sanctions levied against Russia for its Ukraine invasion.

In addition to super yachts and layers of untraceable shell companies, these billionaires close to Russian President Vladimir Putin could be using secret investments in commercial real estate via bank loans as a means to conceal their wealth and avoid seizures of funds under anti-money laundering laws, according to the Treasury Department.

Banks are positioned to detect red flags because of their large exposure to the U.S. commercial real estate market and because of their legal mandate to hunt down money laundering. Banks originate the loans, but commercial real estate professionals apply for and arrange bank financing on commercial developments as well as identifying buyers and sellers of property.

The Financial Crimes Enforcement Network, a division of the Treasury Department better known as FinCEN, has started a rulemaking process that would impose requirements to prevent money laundering on the commercial real estate industry, said Dan Stipano, a bank regulatory attorney at Davis Polk & Wardwell. But the process has not advanced far enough to know who within commercial real estate would be subject to the rules.

Despite their direct connection to business property loans, commercial real estate brokers and executives may think they have nothing to worry about, said Ross Delston, an independent attorney who specializes in anti-money-laundering

compliance with more than 20 years of experience. They're mistaken, said Delston, who is based in Washington, D.C., and formerly was an attorney with the Federal Deposit Insurance Corp.

"Real estate people don't know that they're covered" under the law, Delston told CoStar News. But the Office of Foreign Assets Control rules "apply to everybody." He added that "there's no question [commercial real estate executives] will come under greater scrutiny."

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The Treasury Department did not disclose whether it knows of instances where Russian oligarchs, societal elites, family members, or corporate entities have illegally participated in U.S. commercial real estate loans. But current conditions make it ripe to happen, the agency said.

Offshore Accounts

U.S.-led economic sanctions against Russia have targeted oligarchs because of what officials say are their close ties to Putin and because of their immense wealth. The nonprofit National Bureau of Economic Research estimated that, as of 2015, Russian oligarchs held about \$800 billion in offshore accounts.

Roman Abramovich, the oligarch [who was forced to sell Chelsea F.C.](#), a Premier League soccer franchise, last year because of sanctions, had an estimated net worth of \$6.9 billion last year, according to Forbes.

Docking [super yachts](#) in Russia-friendly countries has been a common means of avoiding sanctions, but the United States has seized vessels believed to be owned by oligarchs. Now they're turning to other methods, said Stipano.

"Commercial real estate projects often involve a multitude of legal entities and complex structures, which can make them opaque," Stipano told CoStar News. "Commercial real estate is also generally stable, which makes it an attractive place to park money."

FinCEN warned banks last week to be on the lookout for potential real estate loans by wealthy, well-connected Russians subject to U.S. sanctions.

"Sanctioned Russian elites and their proxies ... may seek to avoid detection by investing in [commercial real estate] projects that are less likely to be noticed by the general public or that would potentially draw unwanted attention," FinCEN said in the report.

"They need not be high-end or luxury properties and could include [commercial real estate] in the multifamily housing, retail, office, industrial or hotel sectors," the agency said.

Spotting Warning Signs

Banks are well positioned to detect warning signs, officials say. Banks hold about 40% of outstanding commercial real estate in the United States, a bigger share than life insurance companies or mortgage-backed securities, according to a 2020 [report](#) by the Congressional Research Service.

The federal Bank Secrecy Act requires banks to identify and report suspicious activity to the Treasury Department. Banks

should step up compliance or face potential regulatory violations, Alex Brackett, an attorney at McGuireWoods in Richmond, Virginia, wrote in a recent report to clients.

Federal regulators routinely fine banks for neglecting their duty to report red flags. USAA Federal Savings Bank in San Antonio was fined \$140 million last year for failing to report thousands of suspicious transactions. The bank, which originates commercial real estate loans, consented to the fine and said it planned to increase scrutiny and its compliance programs.

Banks are regulated by an array of state and federal agencies, including the Federal Deposit Insurance Corp. But it's unclear what agency will enforce regulatory compliance on commercial real estate firms, Delston said.

It could come from a combination of law enforcement agencies, including the FBI, the Internal Revenue Services' criminal investigation division, and the Department of Homeland Security.

Federal officials aren't the only ones looking to snuff out Russian real estate investing in the United States. A bill proposed in the Texas Senate would [ban all future real estate purchases](#) in the state by citizens, entities and governments from Russia, North Korea, Iran and China. Texas Gov. Greg Abbott has said he supports the bill.
